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ARIZONA CORPORATION COMMISSION

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June 2, 2009

Re: Integrated Resource Planning in Arizona. Docket No. E-00000E-09-0249.

Dear Parties to the Docket:

As you know, for some time now this Commission has conducted workshops aimed at reviewing and revising the existing Integrated Resource Planning rules applicable to Arizona's electric utilities. While I am encouraged by the progress to date, my review of the resource planning processes in other states has created concerns which I would like considered within this docket.

Prior Commission decisions have recognized and emphasized the need for balance with respect to electric portfolios. Balanced portfolios were seen as minimizing price pressures from fuel price volatility, future carbon legislation¹ and other concerns, leading to enhanced long-term rate stability.² In addressing the need for balance, it is important to note the role that non-carbon generation technologies will play in balancing utility generation portfolios. Significant renewable generation additions will be necessary in order to counter-balance existing carbon-heavy portfolios.

Indeed, in Arizona, we are already witnessing the palliative economic impact on utility rates associated with this Commission's decision to require a heightened focus by utility companies on renewable energy, energy efficiency and demand response. For instance, this week, the Commission approved an Order under which Arizona Public Service Company ("APS") will purchase 100 Megawatts of demand response energy at a cost to consumers of \$7 million to 11 million; the cost to construct a 100 Megawatt simple cycle turbine natural gas plant would exceed 80 times that amount. The Commission has also approved numerous recent rules requiring the state's regulated utilities to engage in energy efficiency programs, most of which average 1 to 2 cents per Kwh, or up to 8 times less than the average retail rate. Finally, the Commission's Renewable Energy Standard has led companies like APS to purchase solar and wind energy that is predicted to be cost competitive – or cheaper – than fossil fuel generation when Congress passes a cap and trade program or carbon tax.

Other states are recognizing the ratemaking advantages associated with clean energy by requiring that these resources be given an equal opportunity at inclusion in utilities' resource plans. In 2007, Colorado revised its resource planning rules, moving from a strict least-cost approach to a process which considered various benefits of new utility resources such as "new clean energy"

¹ In an April 1, 2009 letter from Arizona Public Service Company to U.S. Senator Jon Kyl, APS estimated that carbon legislation could raise electric rates eleven to forty one percent.

² Decision No. 69127, which approved Arizona's Renewable Energy Standard and Tariff Rules, found that "[i]t is just, reasonable, proper, and necessary to require a diverse fuel supply for Arizona's electricity needs in order to reduce reliance on fossil fuel energy sources in Arizona to promote and safeguard the security, convenience, health and safety of the Affected Utilities' customers and the public in Arizona."

and "energy efficient technologies" resulting in cost-effective resource portfolios.³ Application of broader, more subjective criteria was identified as a means of appropriately balancing costs and various other benefits. Specifically, rules clarified that a competitive acquisition process was "intended to result in cost-effective resource portfolios, taking into consideration projected system needs, reliability of proposed resources, beneficial contributions of new clean energy and energy-efficient technologies, expected generation loading characteristics and various risk factors."⁴ The inclusion of broader criteria allowed for incorporation of a variety of resource planning elements, including clean energy and energy efficiency. Following the changes, no single resource bore an innate advantage, but rather each resource was to be duly considered.

Given the approach undertaken in Colorado, and Arizona's favorable experience with renewable energy, energy efficiency and demand response, I believe it is appropriate for this Commission to consider, as a component of our resource planning rules process, what provisions and broader criteria must be incorporated in order to achieve appropriately balanced portfolios. At a minimum, a de-emphasis of cost and inclusion of other subjective criteria must be contemplated if Arizona utilities are to be expected to diversify their energy portfolios and give due weight to clean energy and energy efficiency.

I would like the Parties to the docket to comment on the potential incorporation of such a provision in Arizona's Integrated Resource Planning Rules.

Thank you for your attention to this matter.

Sincerely,



Kris Mayes
Chairman

Cc: Commissioner Gary Pierce
Commissioner Sandra Kennedy
Commissioner Paul Newman
Commissioner Bob Stump
Ernest Johnson
Janice Alward
Lyn Farmer
Mike Kearns
Rebecca Wilder

³ See Decision No. C07-1101.

⁴ See 4 Colo. Code Regs. §723-3.